

Sheet (1)

Section (A): MCQ

1. Which of the statements below does not apply to the PPF?
 - a. the PPF is closely related to the concept of scarcity
 - b. Quantities of inputs are measured along the axes of the PPF
 - c. The PPF may shift over time
 - d. Movements along the PPF may occur as the allocation of resources changes
 - e. Technology may change the shape of the PPF
2. Which of the statements below is a reason why an economy might produce a level of output that is beneath its PPF?
 - a. The available resources are not equally suited to the production of both outputs
 - b. The available body of technological knowledge is not being fully utilized
 - c. Society prefers one product over the other
 - d. In reality economies produce thousands of goods not just two
3. Which of the following are measured along the axes of a PPF graph?
 - a. Quantities of productive inputs or resources.
 - b. Quantities of finished commodities
 - c. Values of finished commodities
 - d. All of the above
 - e. None of the above
4. If an economy did somehow add to its input stock, or if it did discover new production techniques, then the PPF curve would
 - a. remain unchanged
 - b. move appropriately inward and to the left
 - c. move appropriately outward and to the right
 - d. none of the above
5. If a commodity such as peanuts becomes overstocked, sellers will:
 - a. Raise their prices in order to make up for the fact that sales are lower.
 - b. Raise their prices in order to increase the demand for peanuts.
 - c. Lower their prices hoping to lure additional buyers into the marketplace.
 - d. Lower their prices in order to encourage competition from rival firms.
 - e. Grow more peanuts next year to make up for losses this year.
6. A market equilibrium is defined as occurring when:
 - a. government has balanced the forces of supply and demand.
 - b. the price is such that the quantity that buyers want to buy is equal to the quantity that sellers want to sell.
 - c. price and quantity are equal
 - d. prices are rising
 - e. prices are falling
7. The "invisible hand" refers to:
 - a. The role of government in the marketplace.

- b. A system of taxation that redistributes wealth from the rich to the poor.
 - c. The fact that individuals, pursuing their own self-interest, achieve the best good for all when operating in a market economy.
 - d. A production system whereby each individual performs the task to which he or she is best suited.
8. Government's role in a modern economy is to:
- a. Ensure efficiency.
 - b. Correct an unfair distribution of income.
 - c. Promote economic growth and stability.
 - d. All of the above.
 - e. None of the above.
9. Perfect competition means that:
- a. All goods and services have prices and are traded in markets.
 - b. No firm or consumer is large enough to affect the market price.
 - c. Each industry is controlled by a single, monopolistic firm.
 - d. A and b.
 - e. All of the above.
10. Many governments subsidize primary research because it often benefits all citizens, even those who are not actively involved in research. This makes primary research a (n):
- a. negative externality.
 - b. private good.
 - c. public good.
 - d. efficient good.
 - e. equity good.
11. The concept of opportunity cost is:
- a. useful only when discussing the PPF
 - b. used to measure costs in terms of the next-best alternative
 - c. measured in dollars and cents
 - d. used only by professional economists
 - e. none of the above.
12. When reference is made to a capitalist economy, the speaker is probably contemplating an economy:
- a. in which most capital goods are privately owned
 - b. in which the stock of capital is large relative to the population of the economy
 - c. that is under communist or socialist direction, so property rights flow to the government
 - d. suffering from high and increasing rates of inflation.
 - e. that has limited economic resources with which to work.
13. The three fundamental questions of economic organization are:
- a. closely relate to the concept of scarcity
 - b. not nearly as important today as they were at the dawn of civilization
 - c. what, how and why
 - d. land, labor and capital
 - e. all of the above
14. which of the following statements applies to a mixed economy?
- a. there is confusion and a lack of organization

- b. the allocation of resources changes from one production period to production period
 - c. there are no real examples of truly mixed economies
 - d. mixed economies include aspects of both market and command economies
 - e. none of the above statements apply
15. which of the following statements is false? When an economy is on the PPF:
- a. more of one product can not be produced without sacrificing some of the other
 - b. resources are fully employed
 - c. the economy is producing with productive efficiency
 - d. consumers will have all they need
 - e. a strike by workers will move the economy beneath the PPF

Section (B): True or False questions:

1. In terms of a PPF, additions to the stock of capital can push the PPF upward and outward
2. In a fully employed economy, a decision to produce more capital goods today must go hand-in-hand with a decision to produce fewer consumer goods in the current period
3. In a market economy, goods are allocated by the price system to those people who can afford them.
4. A decision to produce or to not produce more capital goods is not part of the decision of what goods to produce.

Section (C): Problems

1. Table 1 shows the production possibilities of country Y for 2 commodities: apartments and bread. At each production point listed in this table all the resources of the country are fully employed and all the available technological knowledge is being utilized

Table 1

Apartments (thousand of units)		Bread (millions of loaves)
0	A	30
6	B	29
12	C	26
18	D	22
24	E	16
30	F	0

- a. Draw country Y PPF
- b. Is point C a point of productive efficiency? Explain
- c. Find the point where country Y is producing 16,000 apartments and 10,000,000 loaves of bread. Label this point G. Assuming your PPF remains where it is, list 2 reasons why country Y could be producing at G
- d. Find the point where country Y is producing 50,000 apartments and 50,000,000 loaves of bread. Label this point H. Given your current PPF can country Y actually produce this combination of goods? Please explain why or why not.